

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

WASHINGTON LEWISBURG WATER DISTRICT	)	
MASON COUNTY, KENTUCKY FOR A REVISION	)	CASE NO. 7952
OF RATES APPLICATION	)	

O R D E R

Preface

On September 2, 1980, the Washington Lewisburg Water District, hereinafter referred to as the "Applicant", filed with the Public Service Commission, formerly the Utility Regulatory Commission, its duly verified application seeking approval of proposed adjustments to its existing rates for providing water service. The rate increase sought by the Applicant would yield annual revenues of approximately 45.7% over test-year operations.

The case was set for hearing on December 9, 1980, at 10:00 a.m., Eastern Standard Time, in the Commission's offices at Frankfort, Kentucky. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's office being permitted to intervene in this matter. At the hearing, certain requests for information were made by the Commission's staff. This information has been filed and the entire matter is now considered to be fully submitted for final determination by this Commission.

### Test Period

For the purpose of determining the reasonableness of the proposed rates, the twelve-month period ended June 30, 1980, has been utilized as the "Test-Year". Adjustments, where found significant and reasonable, have been included to reflect more current operating conditions.

### Revenues and Expenses

The Applicant proposed several adjustments to actual operating revenues and expenses as reflected in its Comparative Income Statement for the twelve months ended June 30, 1980. The Commission finds these adjustments allowable and has accepted them for ratemaking purposes with the following exceptions:

1. Applicant, in its computation of pro-forma Purchased Water Cost, failed to consider excessive line loss of 4.17% above the 15% maximum allowable by the Commission, and, further, made a mathematical error in the calculation of its base adjustment to this expense. Therefore, the Commission has reduced Purchased Water Cost from \$53,428.37 to \$48,213.94 substantiated by the following: (77,403 M gallons purchased during the test-year x 52¢ per M gallons) x 25% surcharge = \$50,311.95 - 4.17% excessive line loss = \$48,213.94.
2. Applicant made pro-forma adjustments to several of the operating expense accounts based on a 10% inflation factor without providing documentary evidence supporting the adjustments. The increases were considered to be speculative at best. Therefore,

these adjustments, which were determined by the Commission not to be reasonable, known and measurable adjustments, are denied. They are as follows:

Fuel or Power Purchased for Pumping	\$ 223.07
Operating Supplies & Expenses (Pumping)	373.66
Maintenance of Distribution Reservoirs and Standpipes	960.00
Maintenance of Mains	300.00
Maintenance of Meters	118.85
Maintenance of Other Plant	735.40
Meter Reading Labor	352.00
Accounting & Collecting Labor	95.58
Office Supplies & Other Expenses	148.91
Franchise Requirements	5.52
Miscellaneous General Expenses	<u>58.82</u>
Total	<u>\$3,371.81</u>

3. During the test period, the Kentucky Department of Transportation reimbursed the Applicant for \$3,405.94 expended by the water district to relocate water lines in the Kenton Station Road area. The reimbursement of \$3,405.94 is not included in Applicant's test year operating revenues. However, following an investigation of the Applicant's accounting records by the Commission's staff, it was determined that certain expenses associated with this water line relocation were included in operating expenses for the test period:

Arthur Sexton - hauling sand	\$ 190.65
Arthur Sexton - hauling sand	165.73

Arthur Sexton - hauling sand	\$ 322.80
Carey-Adams - sand	104.62
Carey-Adams - sand	79.35

As these expenses have been recovered through reimbursement from the Kentucky Department of Transportation, it would be unfair to permit double recovery from Applicant's customers. The Commission has therefore made an adjustment of \$863.15 to operating expenses for the test period.

4. The functional grouping of operating expenses during the test period entitled "Transmission and Distribution Expenses" is composed of two segments as follows:

Overhauling of Water Tanks	\$ 3,346.00
Other Transmission and Distribution Maintenance Expenses	<u>17,706.00</u>
Total	<u>\$21,142.00</u>

It was deemed reasonable by the Commission to amortize the cost of overhauling the water tanks over a three year period, as the benefit derived from the improvement in the tanks is applicable to more than one year's operation. ( $\$3,436 \div 3 = \$1,145$  per year.)

A further study was made relative to the remaining transmission and distribution maintenance cost of \$17,706. It was found, in this analysis of the accounting records and the hourly distribution sheets submitted to the Applicant by its contracted maintenance companies, that certain items expensed during the test year should have properly been capitalized. Therefore, test year expenses have been reduced by \$2,974. These items should have been

recorded in the following asset accounts:

Account #343 - Transmission and Distribution Mains	\$ 875.00
Account #345 - Services	485.00
Account #347 - Meter Installation	1,614.00

5. The Commission is of the opinion that depreciation expense should be computed on the basis of original cost of Utility Plant in Service less accumulated Contributions in Aid of Construction, which requires a reduction of Applicant's "Per Books" depreciation expense by \$1,929.72. Further adjustments to this account are required pursuant to an allowance for additional "actual and pro-forma" depreciation expense. Following is a detailed summary of the activities within the account:

Depreciation Expense per Applicant's books -	\$10,154.00
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Less:

Adjustment pertaining to consideration given Contributions in Aid of Construction - \$521,013.76 (Plant in Service at 6/30/80) less \$109,799.89 (Contributions in Aid of Construction) x 2% = \$8,224.28 - \$10,154.00 =	(1,929.72)
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Adjusted per books -	\$ 8,224.28
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Add:

Allowable depreciation expense on items removed from Transmission and Distribution Maintenance expense and considered as capital items:

Meter Installations - \$1,614 @ 10%	161.40
Mains - \$875 @ 5%	43.75
Services - \$485 @ 5%	24.25
Allowable pro-forma depreciation expense for 1981 plant additions of \$13,087 @ 2%	261.74
Allowable depreciation expense	<u>\$ 8,715.42</u>

6. The inclusion of a pro-forma adjustment by the Applicant to retire Interest on Long Term Debt, in arrears, in the amount of \$6,154 has been disallowed by the Commission. Normal recovery for this item is through an accumulation of Net Income after payment of annual debt cost pursuant to an adjusted rate structure.

Therefore, the Utility's adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$107,265	\$ -0-	\$107,265
Operating Expenses	<u>85,721</u>	<u>3,874</u>	<u>89,595</u>
Net Operating Income	\$ 21,544	\$ 3,874	\$ 17,670
Interest Expense	18,310	-0-	18,310
Amortization Expense	618	-0-	618
Net Income	<u>\$ 2,616</u>	<u>\$ 3,874</u>	<u>\$ 1,258</u>

#### Operating Revenue Increase

The Commission finds that the Applicant is entitled to operating revenues equal to 1.2 times its annual debt service plus operating expenses including depreciation. Therefore, the increase in operating revenues is computed as follows:

Debt Service x 1.2	\$ 31,114
(Principle \$7,000 + Interest \$18,928 x 1.2)	
Add: Adjusted Operating Expenses	<u>89,595</u>
Subtotal	<u>\$120,709</u>
Less: Adjusted Operating Revenue	<u>107,265</u>
Increase in Gross Revenue	<u>\$ 13,144</u>

#### Findings in This Matter

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and FINDS that:

1. The rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof should produce gross annual

revenues of approximately \$120,709 and are the fair, just and reasonable rates to be charged for water service rendered by the Applicant on and after the date of this Order.

2. The Commission further concludes that gross annual revenues in the amount of \$120,709 are necessary and will permit the Applicant to meet its adjusted operating expenses and provide a 1.2 coverage of its annual debt service cost.

3. The rates proposed by the Applicant are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

4. The Applicant has not maintained its accounting records, especially in the area of capitalized cost, pursuant to KRS 272.280, Section 3, Item (1), which requires that each utility shall set up the proper accounts to conform with the Commission's adoption of a uniform classification of accounts for water utilities.

#### Orders in This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof, are hereby fixed as the fair, just and reasonable rates of the Washington Lewisburg Water District to become effective for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by the Applicant, insofar as they differ from the rates as set out in Appendix "A", be and the same are hereby denied.

IT IS FURTHER ORDERED that the Applicant is hereby directed to maintain its accounting records pursuant to KRS 272.280, Section 3, Item (1), with special attention to capatilized cost.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission, within thirty (30) days after the date of this Order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Applicant's Rules and Regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 14th day of April, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Did not participate.  
Vice Chairman

Don Haragan  
Commissioner

ATTEST:

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Secretary



## APPENDIX "A"

### APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 7952 DATED APRIL 14, 1981.

The following rates are prescribed for the customers in the area served by Washington-Lewisburg Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

#### Residential Service

First 3,000 Gallons	\$ 8.00 (Minimum Bill)
Next 27,000 Gallons	1.50 per 1,000 Gallons
Over 30,000 Gallons	1.25 per 1,000 Gallons

#### Commercial Service

First 40,000 Gallons	\$61.00 (Minimum Bill)
Over 40,000 Gallons	1.25 per 1,000 Gallons

#### Resale Service

First 63,000 Gallons	\$52.00 (Minimum Bill)
Over 63,000 Gallons	0.83 per 1,000 Gallons

Meters shall be read and customers shall be billed to the nearest one hundred (100) Gallons.